

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 NEAE-00 AID-05 EB-08 OIC-02
PM-04 NSC-05 SP-02 SS-15 CIAE-00 INR-07 NSAE-00
DODE-00 L-03 ACDA-07 SAJ-01 OMB-01 TRSE-00 IGA-02
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FM AMEMBASSY ANKARA
TO SECSTATE WASHDC PRIORITY 6223
INFO AMEMBASSY ISLAMABAD
AMEMBASSY LONDON
AMEMBASSY TEHRAN

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PASS TO AID - RICHTER, NE/TECH

E.O.11652: N/A
TAGS: CENTO
SUBJECT: PREPARATION FOR CENTO ECONOMIC COMMITTEE MEETING MARCH 1-3
IN ISTANBUL

1. PROBLEM: IN ADDRESSING DELEGATES TO THE MEETING OF THE
ECONOMIC STEERING GROUP EXPANDED (ESG/E), CENTO SEC GEN HALUK
BAYULKEN RAISED POLICY ISSUES WHICH CAN BE EXPECTED TO BE
MATTERS FOR DISCUSSION AT ECONOMIC COMMITTEE MEETING IN
ISLAMABAD MARCH 1-3 AND MAY ALSO BE SEEN AS IMPACTING ON
CENTO OPTIONS REVIEW CURRENTLY UNDERWAY. THE CENTO SECRE-
TARIAT, WITH THE APPROVAL OF THE SEC GEN, WILL BE ASKING AT THE

ECONOMIC COMMITTEE MEETING IN ISLAMABAD MARCH 1-3 FOR SMALL
INCREASES BY ALL MEMBER COUNTRIES IN CONTRIBUTIONS TO MULTI-
LATERAL TECHNICAL COOPERATION FUND (MTCF) AND MULTILATERAL
SCIENTIFIC FUND (MSF) AND ASKING AGAIN FOR SUBSTANTIAL INCREASES
IN THE NON-REGIONAL COUNTRIES FUNDING OF CENTO'S

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ECONOMIC PROGRAM. ALTHOUGH THIS IS A YEARLY EXERCISE,
EMBASSY BELEIVES THE REQUEST IS UNDERSCORED THIS YEAR BY
AN INCREASING SENSE OF DISAPPOINTMENT AT WHAT THE REGIONAL
MEMBERS OF CENTO AND THE SECRETARY GENERAL IN PARTICULAR
SEE AS A FAILURE TO TRANSLATE INTO PRACTICE THE STRONG
SUPPORT FOR CENTO ECONOMIC ACTIVITIES RECEIVED AT THE
COUNCIL OF MINISTERS LEVEL. IN HIS ADDRESS TO THE DELE-

GATES AT THE ESG/E MEETING THE SECRETARY GENERAL MADE THIS POINT IN STRONG LANGUAGE. EMBASSY BELIEVES THE US DELEGATION TO THE ECONOMIC COMMITTEE MEETING SHOULD BE PREPARED TO AGREE TO SMALL INCREASES IN MTCF AND MSF FUNDS AS PROPOSED BY ESG/E AND TO DISCUSS FUNDING LEVELS IN GENERAL. IN PARTICULAR THE DELEGATION SHOULD BE ABLE TO SAY ONCE AND FOR ALL WHETHER THE US IS PREPARED TO FUND ONLY \$500,000 FOR UPGRADING OF THE PAKISTAN PORTION OF THE CENTO MICROWAVE SYSTEM OR WHETHER ADDITIONAL FUNDING OF THE FOREIGN EXCHANGE REQUIREMENTS CAN BE CONSIDERED.

2. BACKGROUND: A. THE ESG/E MET JANUARY 18-20, 1977 TO REVIEW THE REPORTS OF THE ECONOMIC COMMITTEE'S VARIOUS SUB-COMMITTEES WHICH MET IN NOVEMBER-DECEMBER 1976. THE SUB-COMMITTEES HAD FORMULATED EXTENSIVE PROGRAM PROPOSALS FOR ONGOING AND NEW ACTIVITIES FOR THE PERIOD OCTOBER 76 TO OCTOBER 77. THESE PROGRAMS COSTED OUT TO SEVERAL TIMES MORE THAN THE AMOUNT AVAILABLE TO CENTO. ALTHOUGH THIS

HAS GENERALLY BEEN THE CASE FOR SEVERAL YEARS NOW, THE PROBLEM WAS MORE COMPLICATED THIS YEAR. CARRYOVER FUNDS FROM PREVIOUS YEARS HAVE NOW BEEN MOSTLY USED UP. INFLATION AND DECLINE OF BRITISH POUND HAVE FURTHER LIMITED WHAT CAN BE DONE. DURING THE SUB-COMMITTEE MEETINGS AND AT THE ESG/E MEETING, CONSIDERABLE DISSATISFACTION WITH CURRENT FUNDING LEVELS WAS EXPRESSED TIME AND AGAIN. EMBASSY IMPRESSION IS THAT THIS DISSATISFACTION RUNS WELL BEYOND ANNUAL EFFORT TO INCREASE FUNDS AND IS INDICATIVE OF A GROWING SENTIMENT THAT DECLINING REAL LEVELS LIMITED OFFICIAL USE

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OF SUPPORT FOR CENTO ECONOMIC ACTIVITIES INDICATE A LESSENING COMMITMENT TO CENTO ITSELF DESPITE HIGH LEVEL ASSURANCES TO CONTRARY.

B. THIS WAS PRECISELY THE MESSAGE DELIVERED BY THE SECRETARY GENERAL IN HIS ADDRESS TO THE DELEGATES AT THE ESG/E MEETING. HE SAID IN PART:

QUOTE. AS YOU ALL KNOW, WE ARE GOING THROUGH A DIFFICULT PERIOD FOR ALLIANCES IN GENERAL. I AM NOT GOING INTO DETAILS, BUT I THINK THAT YOU ALL KNOW THE DIFFICULTIES. I THINK THE FIVE COUNTRIES ARE UNITED TO MAKE OUR ORGANIZATION GO AND TO STICK TOGETHER IN THE ECONOMIC PROGRAMME AND OTHER OBJECTIVES. THIS WAS ASSURED TO ME, AND I AM LOOKING FORWARD TO HAVING THE SAME ASSURANCES WHEN NEXT MONTH I TAKE MY ANNUAL CONSULTATIONS WITH THE GOVERNMENTS. SO, IN SPITE OF THE DIFFICULTIES, I HAVE BEEN VERY HAPPY TO SEE THE TREMENDOUS DETERMINATION OF THESE FIVE COUNTRIES TO GO ON AND MAKE EVERY EFFORT.

THEREFORE, IN CONOMIC ACTIVITIES, I HAVE BEEN BRIEFED BY MR. DOUGLAS MARTIN, THE DEPUTY SECRETARY GENERAL (ECONOMIC), THAT YOU HAVE DONE A VERY GOOD JOB. BUT I CAN TELL YOU THAT I AM LOOKING FORWARD IN THE COMING YEARS TO MORE ACTIVITIES, BECAUSE IF WE DO NOT, I AM AFRAID THAT THE POITICAL LEADERS (THE TOP EXECUTIVE LEADERS, THE MINISTERS, THE MINISTER OF FOREIGN AFFAIRS, THE PRIME MINISTERS, ETC.) IF THEIR WILL IS NOT TRANS-LATED INTO ACTION, I AM AFRAID THAT WE WILL BE FACING A VERY DIFFICULT SITUATION. SO I HAVE TO TAKE THEIR GOOD WILL FOR ENCOURAGING POSTIVIE ACTION. UNQUOTE.

C. ON THE PAKISTAN MICROWAVE PROJECT THE SECGEN SAID:
QUOTE. LASTLY, I WOULD LIKE TO EXPRESS MY THANKS TO THE PAKISTAN DELEGATION FOR FFSENTING THE FEASIBILITY DATA WHICH THE UNITED STATES EXPERT, WHO VISITED PAKISTAN LIMITED OFFICIAL USE

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SOME MONTHS AGO, REQUESTED. I WOULD LIKE TO STRESS THAT I ATTACH VERY GREAT IMPORTANCE TO THIS PROJECT, BECAUSE THE COUNCIL OF MINISTERS SAID THAT THE OICROWAVE LINK WOULD BE UPGRADED. THIS WAS ACCEPTED BY THE COUNCIL. SO I AM VERY HAPPY THAT THE EXPERT GOT ALL THE INFORMATION AND I WOULD LIKE TO URGE THE UNITED STATES DELEGATION TO CAUSE THE COMPLETION OF THE STUDY (SIC). THIS WILL BE ONE OF THE IMPORTANT POINTS FOR DISCUSSION AT THE ECONOMIC COMMITTEE, WHICH I UNDERSTAND WILL MEET MARCH 1-3 IN PAKISTAN. UNQUOTE.

SECGEN'S REMARKS RAISE AGAIN PROBLEM OF FINANCING PAKISTAN MICROWAVE LINK. PAKISTANI DELEGATIONS TO VARIOUS MEETINGS FOR SEVERAL YEARS, WITH SUPPORT OF OTHER REGIONALS, HAVE REQUESTED US TO CONSIDER PROVIDING TOTAL FUNDING FOR FOREIGN EXCHANGE REQUIREMENTS OF THE PROJECT (CURRENTLY ESTIMATED AT \$2.1 - 2.5 MILLION). AT ESG/E MEETING REGIONALS TRIED TO PUT US ON RCORD AS WILLING TO FUND WHOLE PROJECT. US DELEGATION REASSERTED US COMMITMENT TO BE \$500,000 CONTINGENT ON ACCEPTABLE FEASIBILITY STUDY AND IDENTIFICATION OF SOURCES OF ADDITIONAL FX NEEDED. BUT SECGEN CLEARLY PUTS HIS OFFICE BEHIND PAKISTANI REQUEST FOR FULL FUNDING BY US. IF FEASIBILITY STUDY JUST RECEIVED IS ACCEPTABLE, THEN US IS NOW FACED WITH NEED FOR A DECISNON EITHER TO PROVIDE FULL FUNDING OR TO MAKE UNEQUIVOCABLY CLEAR THAT \$500,000 IS LIMIT OF US FUNDING SO THAT PAKISTANIS WILL INITIATE A SEARCH FOR ADDITIONAL MONEY OR GIVE UP THE PROJECT.

3. PROPOSED POSITION FOR ECONOMIC COMMITTEE MEETING.

A. THE US DELEGATION TO THE ECONOMIC
COMMITTEE MEETING SHOULD APPROVE THE 76-77 ACTIVITIES
PROGRAM AS FORMULATED AND RANK-ORDERED BY THE ESG/E TO THE EXTENT THA
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FUNDS ARE AVAILABLE.
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B. THE SECRETARIAT WILL PROPOSE A RESTATEMENT OF
PRIORITY AREAS FOR ECONOMIC DIVISION ACTIVITY AS FOLLOWS:

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PASS TO AID - RICHTER, NE/TECH

AGRICULTURE, COMMUNICATIONS, RURAL HEALTH, MINERALS
DEVELOPMENT, AND INDUSTRY. THE FIRST FOUR ARE
THE SUBJECTS AROUND WHICH MOST FUNDING IS PRESENTLY
GROUPED. THE INCLUSION OF INDUSTRY WAS MADE BY THE
SECRETARY GENERAL HIMSELF, PROBABLY AS A WAY OF JUSTI-
FYING RETENTION OF THE SENIOR INDUSTRIAL ADVISOR.
EMBASSY RECOMMENDS THAT AGRO-INDUSTRY BE RETAINED AS A
PRIORITY INSTEAD OF INDUSTRY. US DELEGATION TO ESG/E
URGED REGIONAL DELEGATIONS AND SECRETARIAT TO TRY TO

IDENTIFY AN AGRO-INDUSTRIAL PROJECT FOR INCLUSION IN
NEXT YEAR'S PROGRAM AND OFFERED TO FUND IT PARTIALLY OR
WHOLLY FROM THE US CONFERENCE FUND.

C. SECRETARIAT WILL REQUEST APPROVAL TO DENOMINATE
MSG IN DOLLARS RATHER THAN POUNDS. CONTINGENT ON BRITISH
AGREEMENT, US SHOULD BE ABLE TO AGREE.

D. SECRETARIAT WILL REQUEST MODEST INCREASES IN MTCF
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AND MSF FUNDING TO MAINTAIN DOLLAR VALUE OF THESE FUNDS
N THE FACE OF INFLATION AND DECLINE OF BRITISH POUND.
IT IS ASKING FOR MTCF TO GO FROM \$315,000 TO \$380,000
FOR THIS YEAR'S PROGRAM. US SHARE OF THIS (ONE THIRD)
WOULD GO FROM \$105,000 CURRENTLY TO \$126,667.67, I.E.,
UP BY ROUGHLY \$22,000. MSF WAS SET AT PS 40,000 FOR THIS
YEAR WITH US SHARE AT PS 12,500. PS 40,000 WAS INTENDED TO
PROVIDE A DOLLAR VALUE OF \$80,000, BUT POUND DECLINE
REDUCED IT TO ROUGHTLY \$66,000. SECRETARIAT IS ASKING
THAT DOLLAR VALUE BE RESTORED TO \$80,000 THIS YEAR AND
RAISED TO \$96,000 FOR NEXT YEAR (OCTOBER 1977 - OCTOBER
1978). US DELEGATION TO ESG/E AGREED WITH THIS YEAR'S
PROPOSAL (WHICH INVOLVES AN INCREASE OF ABOUT \$6,000
FOR US), PROVIDED IT IS ACCOMPLISHED AS A SHIFT WITHIN
OVERALL AID GRANT RATHER THAN NEW MONEY. SUCH AN ACTION
IS ALLOWED UNDER AN AID BLOCK GRANT PROVISION THAT PERMITS
SHIFTING OF UP TO 20 PERCENT OF MONEY FROM ANY ONE APPROVED
AREA OF USE TO ANOTHER, PROVIDED NO AGREED-ON ACITIVITY
IS CANCELLED TO DO SO. INCREASED US SHARE FOR NEXT YEAR
WOULD BE ROUGHLY \$8,000 (FROM \$24,000 TO \$32,000).
EMBASSY RCOMMENDS AN AGREEMENT WITH AID BE SOUGHT TO
PERMIT DELEGATION TO THE ECONOMIC COMMITTEE MEETING TO
AGREE TO MTCF AND MSF INCREASES REQUESTED FOR BOTH THIS
YEAR AND NEXT CONTINGENT ON OTHER COUNTRIES AGREEING
TO INCREASE THEIR SHARES AS WELL.

E. SECRETARIAT WILL ALSO BE SEEKING APPROVAL TO USE FOR
MTCF ACTIVITIES \$76,146 OF INTEREST ACCUMULATED ON MTCF
ACCOUNTS. SECRETARIAT MAINTAINS IT IS UNABLE WITHOUT
GREAT DIFFICULTY TO SAY WHAT PART OF THIS IS INTEREST ON
US CONTRIBUTIONS. EMBASSY RECOMMENDS THIS BE DISCUSSED
WITH AID AND, IF LEGALLY POSSLE, US DELEGATION SHOULD
BE PREPARED TO APPROVE SECRETARIAT REQUEST CONTINGENT
ON AGREEMENT OF OTHER COUNTRIES TO DO AS WELL.

F. THERE WOULD SEEM TO BE NO CHANCE OF ANY MAJOR NEW
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US OR BRITISH FUNDING AS SOUGHT BY SEC GEN. US DELEGATION SHOULD STILL BE PREPARED TO ADDRESS THIS QUESTION AS IT IS LIKELY TO BE RAISED. NO ONE IS CALLING IT "RESOLUTIONA" THIS YEAR, BUT LARGE PROJECT FUNDING UNDER CENTO AUSPICES IS STILL HOPED FOR BY PAKISTAN AND TURKEY WITH ACTIVE SUPPORT OF SECRETARY GENERAL. US RESPONSE CAN FOLLOW LINE THAT CONGRESSIONAL MANDATE NO LONGER ENCOURAGES US OF USAID MONEY FOR CAPITAL DEVELOPMENT PROJECTS. INSTEAD LARGE-SCALE PROJECT PROPOSALS IDENTIFIED BY CENTO ACTIVITIES SHOULD BE FUNDED EACH COUNTRY THROUGH BANK LOANS OR BILATERAL AID AGREEMENTS WITH OTHER COUNTRIES WHEREVER THESE EXIST.

G. EMBASSY BELIEVES US DELEGATION'S POSITION ON UPGRADING PAKISTAN PORTION OF CENTO MICROWAVE SYSTEM SHOULD FOLLOW ALONG ONE OF THE LINES OFFERED PARA 2C ABOVE.

4. FINAL COMMENT. EMBASSY REALIZES OPTIONS REVIEW FOR US CENTO SUPPORT IS NOT COMPLETE AND THEREFORE DEFINITE LONGER-TERM POLICY POSITIONS ON ASSISTANCE LEVELS CANNOT BE GIVEN NOW. HOWEVER, US DELEGATION TO ECONOMIC COMMITTEE WILL BE CAREFULLY LISTENED TO AS CENTO SECRETARY GENERAL AND REGIONAL MEMBERS, ESPECIALLY TURKEY AND PAKISTAN, TRY TO DETERMINE WHAT PRIORITY THEIR GOVERNMENTS OUGHT TO PUT ON CENTO ECONOMIC ACTIVITIES. EMBASSY BELIEVES AGREEING TO MODEST FUNDING INCREASES IN MTCF AND MSF, ALLOWING USE OF ACCUMULATED MTCF INTEREST, AND REACHING SOME POSITIVE (EVEN IF LIMITED) DECISION ON MICROWAVE PROJECT, WOULD HELP KEEP CENTO'S ECONOMIC DIVISION ON AN EVEN KEEL FOR TIME BEING.
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